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County of Los Angeles
CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

July 22, 2010

To: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

**LOS ANGELES COUNTY ENERGY PROGRAM AND FEDERAL HOUSING FINANCE
AUTHORITY GUIDANCE (RESPONSE TO ITEM 54-B, AGENDA OF JULY 13, 2010)**

On July 13, 2010, your Board instructed the Chief Executive Officer (CEO), in cooperation with the Treasurer & Tax Collector (TTC), the Director of the Internal Services Department (ISD) and the County Office of Sustainability (COS) to:

- 1) Take all prudent steps to curtail, and where feasible, halt the use of Energy Efficiency and Conservation Block Grant funds on its AB 811 loan program until the uncertainties regarding federal funding for these programs has been resolved;
- 2) Report back to the Board of Supervisors in two weeks with initial recommendations regarding the alternative means of encouraging home and business retrofits that would achieve the original goals of the Los Angeles County Energy Program (LACEP) if the impasse in Washington cannot be promptly resolved; and to report back to the Board of Supervisors on a monthly basis thereafter until this dispute is resolved; and
- 3) Work with our partners in Washington D.C. to craft legislation and/or find other administrative solutions that would resolve the Federal Housing Finance Agency, Freddie MAC, and Fannie Mae's current opposition to AB 811-style loans.

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Background

Through the American Recovery and Reinvestment Act (ARRA), the U.S. Department of Energy (DOE) and the Obama Administration (Administration) have invested in energy efficiency initiatives to create jobs and help homeowners save money. Innovative financing approaches are being deployed or are under development by ARRA grantees, stakeholders, and the Administration to deliver significant energy savings for homeowners without exposing lenders to undue risk. Notable among these approaches is the LACEP's, designed to help finance private residential and non-residential improvements. LACEP would utilize California Assembly Bill 811, which authorizes willing property owners to finance energy efficiency and renewable energy improvements through an assessment contract with the County. These assessments would be secured by a priority lien placed against the property and repaid through property tax assessments. This unique and promising financing program is broadly described as a Property Assessed Clean Energy, or PACE, program.

Over the past several months, financial regulators including Federal Housing Finance Authority (FHFA), Federal Depository Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) have expressed concerns about pilot PACE financing programs. Despite assurances from the DOE and the Administration that these concerns could be mitigated, on May 5, 2010 Fannie Mae (FNMA) and Freddie Mac (FMAC) sent a letter stating that their Uniform Securities Instruments prohibit loans (in this case a lien on the property) that have a senior lien priority to a mortgage, such as PACE would do.

In response to these concerns, DOE and Administration officials met repeatedly with FNMA and FMAC, and the financial regulators as well as PACE stakeholders across the country. In addition, the DOE issued updated guidance for pilot PACE financing programs on May 7, 2010.

In the course of these meetings, the DOE and Administration have offered commitments to work on new more stringent underwriting criteria, improved consumer protections, and additional measures to significantly reduce the risk and financial exposure to mortgage holders. Despite these efforts, the FHFA issued a statement codifying their concerns on July 6, 2010. In addition, the banking regulators have made clear that they will oppose any program in which PACE assessments are in the senior lien position (OCC issued a bulletin on July 6, 2010). Given this, PACE programs throughout the Country have ceased providing financing or, in the case of LACEP, halted progress towards implementation.

Response to Board's Direction

The following recaps the three parts of your Board's direction, and the response to each part.

1. **Take all prudent steps to curtail, and where feasible, halt the use of Energy Efficiency and Conservation Block Grant (EECBG) funds on its AB 811 loan program until the uncertainties regarding federal funding for these programs has been resolved.**

A breakdown of all three ARRA grants received by ISD is indicated in the table below.

| General Activity Breakdown of ARRA Grants | |
|--|---|
| Formula Allocated EECBG - \$12.2 MM (out of \$15.4 MM total grant) | |
| \$5.7 MM | Program Design, Implementation, Administration |
| \$5.0 MM | Discretionary funds for interest rate buy down or participant incentives |
| \$1.0 MM | Program management, grant administration |
| \$0.5 MM | Consultants related to PACE Program development, other resource costs |
| Competitive EECBG - \$14.0 MM (out of \$30 MM total grant – State-wide) | |
| \$5.0 MM | Targeted marketing, outreach and community organizing |
| \$5.0 MM | Financial incentives |
| \$2.0 MM | Statewide IT Database and Administrative System, Quality Assurance/Quality Control Program, Program Evaluation and Report |
| \$1.5 MM | Project management, grant administration |
| \$0.5 MM | Council of Governments Support/Coordination |
| \$8.0 MM California Energy Commission Grant | |
| \$4.5 MM | Marketing and outreach in cities that join LACEP |
| \$2.0 MM | Contract/project management and administration |
| \$1.5 MM | Green Job Training scholarships and incentives |

The DOE has provided guidance to ARRA grantees impacted by the recent developments with pilot PACE financing programs to determine the most effective way to leverage existing or planned program infrastructure to incorporate additional financing tools. The DOE guidance, below, is consistent with your Board's directive.

“The DOE and Administration continue to support pilot PACE financing programs. Recovery Act grantees are not expressly prohibited from using funds to support viable PACE financing programs, however the practical reality is that residential PACE financing programs with a senior lien priority face substantial implementation challenges in the current regulatory environment. In light of the clear opposition from the regulators for PACE financing programs with a senior lien priority, prudent management of the Recovery Act compels DOE and Recovery Act grantees to consider alternatives to programs in which the PACE assessment is given a senior lien priority.”

As mentioned in the motion of July 13, 2010, the focus of these grants, and of LACEP, is to motivate Los Angeles County property owners to implement building retrofit programs, particularly residential retrofits. Because LACEP primarily promotes whole house retrofits, and PACE is merely an optional, attractive means to implement retrofits, the opportunity to save remaining grant funding is limited.

The California Energy Commission (CEC) and the California Public Utilities Commission (CPUC) have adopted a State-wide brand for residential retrofits to focus on the “whole house” as a building system, and not just as a conglomeration of individual equipment eligible for individual rebates. The CPUC has ordered the investor-owned utilities (IOUs) to develop a program that promotes rebates for energy efficiency measures that incorporate this “whole house” concept. These measures include: home insulation, heating and air conditioning duct work repairs, door and window sealing, pipe insulation and other measures that have a great impact on home energy efficiency but are often overlooked.

The CPUC has provided the IOUs with \$140 million to implement this program pilot through 2012, to include: marketing and outreach, \$1,000 to \$3,500 per-home in rebates, contractor qualification criteria, and quality control/consumer protection measures. The role for LACEP in this effort includes:

- Leveraging marketing and outreach resources with the IOUs and municipal utilities;
- Developing consistent region-wide contractor training, contractor credentials, quality assurance and quality control guidelines;
- Developing a single, State-wide web portal that supports whole house retrofits, applications for rebates (including Federal HomeStar rebates), PACE financing, consumer education, and contractor selection information;
- Developing LACEP incentives for the State-wide whole house program; and

- Leveraging these activities into a regional (as model for a State-wide) program that achieves residential retrofits and is eligible for future funding from CEC, CPUC and federal government.

Areas where funding directly related to PACE would be curtailed include eliminating the option of using the \$5 million in discretionary funding for a PACE interest rate buy down, and eliminating marketing and outreach funding dedicated to describing PACE financing. The grant budget for marketing and outreach dedicated to PACE financing would be limited, as most marketing and outreach dollars are intended to promote the State-wide whole house retrofit program, where PACE financing is an implementation option.

Most activities related to PACE program design, implementation and administration have already been expended in development of the PACE legal documents. The remaining expenses for judicial validation could resume after information is received regarding a proposed legislative solution or the viability of other PACE options (described later).

- 2. Report back to the Board of Supervisors in two weeks with initial recommendations regarding alternative means of encouraging home and business retrofits that would achieve the original goals of the L.A. County Energy Program if the impasse in Washington cannot be promptly resolved and to report back to the Board of Supervisors on a monthly basis thereafter until this dispute is resolved;**

The DOE has provided initial guidance to ARRA grant recipients on replacing PACE financing with other financing programs for energy retrofits on private properties as described below. ISD, DOE and the LACEP consultant team will be assessing and implementing these and other alternatives if feasible.

Alternative Financing

Other states have developed private lending programs for property owners as unsecured loans targeted to energy efficiency and renewable energy. Such loans have stringent qualifying and credit restrictions, resulting in rates that are much better than "credit card" rates. However, they lack the PACE features of having liens tied to the property.

The Federal Department of Housing and Urban Development (HUD) is developing an FHA Title I loan based on an existing program to finance private property improvements. HUD intends to add language to specify financing for energy efficiency and renewable energy. The loans could be secured or unsecured (depending on the

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amount and the measures implemented), and there is some degree of federal subsidy. The financing rates are market based and today would be at 6 - 7%. HUD indicates that FHA Title I loans could be available in 3 - 6 months.

California Energy Commission Grant Reallocation

In response to the FNMA, FMAC and FHFA positions, the CEC has indicated that it is likely to reallocate approximately \$35 million in State Energy Program grants which had previously been competitively awarded to PACE jurisdictions to assist with PACE financing programs. The County submitted an application for this grant but did not achieve a qualifying score. The CEC has notified the County that it is exploring how to best re-allocate these funds to assist PACE jurisdictions in implementing and promoting alternative financing programs. This time, the CEC has indicated it may spread the funds across PACE jurisdictions where they may make the most impact. The County and the CEC continue to discuss the use of these funds for LACEP.

PACE Financing with Subordinate Liens

PACE financing could be available with secondary priority status to mortgages, thus alleviating FHFA concerns over lender risk. The DOE is encouraging ARRA grantees to explore this option. In the opinion of TTC, this option is neither considered appropriate nor feasible for LACEP. The ability to market and sell AB 811 bonds in California is highly dependent upon the senior position that a PACE financing would hold relative to home mortgages. TTC cautions that many investors would be unwilling to participate in any LACEP financing that included a secondary priority status for AB 811 liens. ISD and TTC will monitor and participate in investigations into this option.

Whole House Retrofits under the Statewide Program

As mentioned earlier, the State of California has shown commitment to whole house retrofits through funding \$140 million to the IOUs to implement that program. LACEP leverages this investment through the development of a single, whole house program in L.A. County to serve as the model for a State-wide program. LACEP will work with municipal utilities to encourage them develop whole house retrofit incentives.

LACEP could dedicate the \$5 million in discretionary grant funding to whole house incentives or to interim financing program incentives (loan/loss reserve and/or interest rate subsidies). Absent near term information from policymakers that PACE resolution can be achieved, the discretionary funding will be used for incentives/rebates and not for financing program incentives.

Residential PACE – non FNMA/FMAC

About 10 to 15% of residential mortgages are not held by FNMA or FMAC. Theoretically, PACE liens could be processed for these property owners. However, most property owners do not know if their mortgages are held by these agencies. If their mortgages were purchased by FNMA or FMAC the liens could become due and payable prior to their stated maturity. ISD will continue to research this option and specify the market of residential mortgages that are not held by FNMA or FMAC.

Non-Residential PACE (multi-family, small commercial, medium commercial)

The FHFA guidance to FNMA and FMAC primarily impacts residential mortgages. Non-residential PACE liens could be placed without being impacted by the FHFA guidance. However, non-residential PACE financing is difficult because of the very different risk proposition to bond holders. Under residential PACE there are many smaller liens issued, and the default risk is low as it is spread across many properties. Under non-residential PACE, the liens would be larger and spread across fewer properties. This raises the risk for the bond holders. To mitigate this, the DOE is suggesting non-residential PACE liens have a somewhat lower cap of around \$25,000.

Also, LACEP requires non-residential property owners obtain lender approval before obtaining PACE financing. This creates an added layer of complexity especially on smaller non-residential properties. This is not a major issue on large commercial and industrial properties where the energy projects are more sophisticated. TTC reports that putting together a viable financing program for non-residential properties may take 12 months.

PACE for Large Commercial, Industrial Properties (as a subset of non-residential PACE)

PACE financing for large commercial and industrial projects is being developed between the City of Los Angeles and the County. This program would utilize private financing for projects obtained by large commercial and industrial property owners. These projects could cost upwards of \$1 million. Funding would be based solely on private placement loans – one for each property that has an energy project. The banks or other funding institutions will conduct their own credit review and analysis for each loan. The private financing would provide the funds for the placement of AB 811 bonds and the property owners would have the lien placed on the property tax bill. The lien payment would be transferred to the private lender. TTC and the City of Los Angeles are working on the details for implementing this program shortly after the validation suit is completed.

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3. **Work with our partners in Washington D.C. to craft legislation and/or find other administrative solutions that would resolve the FHFA, Freddie Mac, and Fannie Mae's current opposition to AB 811-style loans.**

In response to FHFA's action, a group of national PACE stakeholders is working to appeal to Congress to resolve the issue and provide a path forward for PACE. Several senators and member of Congress have indicated interest in sponsoring such legislation. - Two powerful House committee chairmen (Waxman and Frank) wrote to FHFA recently urging a resolution. Over 50 members of the House and Senate have publicly supported a favorable resolution to the PACE dilemma.

On July 16, 2010, a House bill was introduced which sought to provide a legislative recognition of the priority lien status of PACE financing. The bill was sponsored by Mike Thompson representing Sonoma County. County staff met with staff from Representative Waxman and Senator Feinstein, and will continue to meet with legislators and the national PACE stakeholder group to develop a cohesive strategy for passing federal legislation during the current session.

ISD is participating in meetings and conference calls as part of this nationwide PACE stakeholder group. The group is discussing a number of potential solutions to mitigate FHFA's position on PACE.

The County's Washington D.C. office prepared a draft resolution introduced at the National Association of Counties (NACO) meeting in Reno, Nevada on July 16-18, 2010, to indicate NACO's support of PACE legislation. On July 18, 2010, NACO adopted the resolution.

If you have any questions, or require further information on this matter, please contact me, or your staff may contact Ellen Sandt, Deputy Chief Executive Officer at (213) 974-1186, or via e-mail at esandt@ceo.lacounty.gov.

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TT:JJ:ef

c: Executive Office, Board of Supervisors
County Counsel
Internal Services
Treasurer and Tax Collector



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August 19, 2010

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AB 811 IMPLEMENTATION – BI-MONTHLY REPORT FOR AUGUST 2010

This status report includes updates on two items related to AB 811:

- On April 14, 2009, your Board directed the Chief Executive Office (CEO), in coordination with the Treasurer and Tax Collector (TTC), Internal Services Department (ISD), and the Energy and Environmental Policy Team, to provide monthly reports on progress in establishing a County-wide energy efficiency and renewable energy financing program pursuant to AB 811. Your Board also directed that the report should include: an implementation schedule for the utilization of American Recovery and Reinvestment Act (ARRA) Federal Energy Efficiency and Conservation Block Grant (EECBG) or other Federal stimulus related funding; an assessment of financial viability; and an inventory of other appropriate funding sources. The AB 811 status reports are now prepared bi-monthly.
- On July 13, 2010, your Board directed the CEO, TTC, and ISD to report back on the status of the Federal Housing Finance Agency's opposition to Property Assessed Clean Energy (PACE) financing, which would be offered in California under AB 811. As part of this motion, your Board directed County staff to halt the use of grant funds for the County's PACE program, to explore other financing options, and to work to resolve the PACE opposition. The CEO provided your Board with a detailed report on July 22, 2010, and will provide monthly status reports on this issue until it is resolved.

The Los Angeles County Energy Program (LACEP) is intended to motivate Los Angeles County property owners to implement energy and water efficiency retrofits to their existing buildings. AB 811, or PACE, financing is an optional, attractive means to implement retrofits and is intended to supplement and fill a void between other available financing options.

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Summary of Activities

Schedule Update

A table indicating key milestones and updated implementation dates (both completed and future) is included below.

| LACEP Milestone Timeline | | | |
|---------------------------------|---|---|---|
| Date | Milestone | Key Document/Activity | Responsibility |
| June 2009 | Initiate outreach to cities and stakeholders | Conduct Stakeholder Input and Information Meetings | CEO, ISD |
| July 2009 | Initiate financial analysis | Program Financial Model | TTC |
| November 2009 | Program Designer, Implementer under contract | ISD Energy Support Services Master Agreement (ESSMA) | ISD |
| November 2009 | Complete first phase outreach to cities to include in resolution | After Board approval of the program, cities must adopt a Council Resolution agreeing to join the County's program to participate. | CEO, ISD, TTC |
| February 2010 | Continue stakeholder outreach and education | Marketing, Outreach Projects Assessment by ISD County Office of Sustainability (ISD-COS) and Program consultants | ISD, Consultant |
| April 2010 | Board Meeting to adopt Resolution of Intention and set a date for Public Hearing | Resolution of Intention | TTC, County Counsel, Bond Counsel, ISD, CEO, Consultant |
| May 2010 | Public Hearing to Establish District and Confirm Report (Policies and Financing Plan) | Resolution Confirming Report and Approving Program Program Report Form of Assessment | TTC, County Counsel, Bond Counsel, ISD, CEO, Consultant |

| LACEP Milestone Timeline | | | |
|---------------------------------|---|---|---|
| Date | Milestone | Key Document/Activity | Responsibility |
| May 2010 | Accepted DOE Retrofit Ramp Up Grant (\$30m) | Contract Form of Bond Indenture Resolutions authorizing establishment of Special Fund, Issuance of Bonds and authorizing validation proceedings Letter to the Board (May 25, 2010) | |
| June 2010 | Initiate Legal Validation Proceedings Cities Pass Resolution to Join Accepted CEC grant (\$8m) Stakeholder meeting | All legal validation documents completed 46 cities passed resolutions Letter to the Board (June 15, 2010) Meeting with construction and solar industry stakeholders (June 15, 2010) | Bond Counsel, County Counsel, ISD |
| July 2010 | Cities Pass Resolution to Join Complete Draft Implementation Documents PACE on hold | 68 cities passed resolutions Implementation Manual (Marketing Plan, Workforce Development, Quality Assurance, Financing, Utility Coordination) July 22 response to the Board regarding Item 54B on July 13th Agenda | County Counsel, TTC, CEO, ISD, Consultant |
| October 2010 | Soft Program Launch | Begin contractor orientation training workshops Utility rebates available Projects begin | ISD, Consultant, Utility Partners |

| LACEP Milestone Timeline | | | |
|---------------------------------|---------------------|--------------------------------------|--|
| Date | Milestone | Key Document/Activity | Responsibility |
| January 2011 | Full Program Launch | Full scale marketing campaign begins | CEC, ISD, Consultant, Utility Partners |

Additional Grants in Support of LACEP

On May 25, 2010, your Board accepted \$30 million in competitive EECBG funds from the United States Department of Energy (DOE) to enhance the participation of property owners in LACEP by implementing a wide variety of pilot programs to determine the most effective approaches for achieving widespread adoption of energy efficiency improvements. The DOE grant is a State-wide collaboration with the Association of Bay Area Governments, the Sacramento Municipal Utilities District, and the San Diego-based California Center for Sustainable Energy. Los Angeles County is the prime recipient of the DOE award, receiving approximately \$14 million of the total award, and is administering the grant with the DOE and coordinating sub-awardee activities. Pilot programs in development include: community based marketing, green building labeling, retail home improvement, HVAC contractor outreach, multi-family and whole neighborhood retrofits.

On June 15, 2010, your Board accepted an intergovernmental contract with the California Energy Commission (CEC) in the amount of \$8 million to provide additional resources to support widespread implementation of LACEP throughout the County. With this funding, LACEP seeks to expand the participation of property owners in LACEP by allowing the County to promote energy efficiency retrofits, conduct training for contractors, and provide broad marketing and outreach within participating incorporated cities. This funding supplements the formula-allocated EECBG funds, which were limited for use only within County unincorporated areas, to expand the marketing, outreach, and workforce development portions of LACEP.

With these additional funds, LACEP seeks to achieve the following goals:

- Achieve energy retrofits for 30,000 single-family homes by the end of 2013, with the potential to add \$300 million to the local economy;
- Create an estimated 3,200 home energy retrofit jobs and 2,000 ancillary jobs; and
- Reduce the County's annual greenhouse gas emissions (attributable to its existing housing stock) by 20,000 tons of carbon dioxide annually.

PACE Financing

In July 2010, the Federal Housing Finance Agency (FHFA), which oversees Fannie Mae and Freddie Mac, issued guidelines to lenders that restricted the ability of homeowners to participate in PACE financing programs. LACEP is one of many PACE financing programs nationwide that have been affected by the FHFA's action.

On July 13, 2010, your Board instructed the CEO in coordination with ISD and TTC to halt the use of grant funds on LACEP's PACE financing program, to explore other financing options, and to work to resolve the PACE opposition. As noted previously, the CEO provided a detailed report to your Board on July 22, 2010.

The County is actively supporting the efforts of the PACENOW Coalition which is a group of local and state governments, energy efficiency and solar advocates, environmental and clean energy non-profits, and financial and business institutions in support of PACE financing programs. The PACENOW Coalition efforts include enabling grassroots action, generating congressional support, engaging national organizations and introducing key legislation in support of PACE programs. These efforts resulted in significant support from around the country.

The PACENOW Coalition supports a bi-partisan bill in the Senate to have the PACE Assessment Protection Act added as an amendment to a larger piece of legislation that will likely pass when the Congress re-convenes in September. California Attorney General Jerry Brown filed suit against FHFA on July 13, 2010 in an effort to reinstate the rights of local governments to provide PACE financing to their constituents. A link to the PACENOW Coalition is located on the LACEP web site and provides up-to-date information on PACE financing.

ISD and the LACEP Consultant team is exploring alternative financing products to determine their compatibility with LACEP and whether modifications can be made to make them a viable option. Most existing financing products may be made more attractive through the application of subsidies in the form of interest rate buy downs or loan loss reserves. Some alternative options identified include:

- Fannie Mae Energy Loan – This loan is a 15.99% fixed rate unsecured loan with a 10 year term and maximum loan amount of \$20,000.
- GeoSmart Loans – Offered via the Electric & Gas Industries Association, a non-profit organization dedicated to advancing energy efficiency and renewable energy solutions. The GeoSmart Loan program offers both fixed and revolving rate products with 10 year terms and maximum loan amounts of \$25,000.

- Housing and Urban Development (HUD) Title I Home Improvement Loan – Any Title I loan in excess of \$7,500 must be secured by a mortgage or deed of trust on the property and is available through approved Title I lenders. The maximum term and loan amount for single family residences is 20 years and \$25,000. Rates vary depending upon borrower qualifications.
- SB 77 Expansion – The CEC, along with Senators Pavley and Huffman, are considering expanding SB 77 (which supports the creation of a PACE debt service fund) to support subsidies for non-PACE financing products.
- City of Los Angeles Commercial PACE Pilot Program – PACE financing for non-residential properties is not affected in the same manner as it is for residential properties. Thus, the City of Los Angeles is moving forward with the design of their pilot commercial PACE program. Key personnel from TTC, County Counsel and ISD are actively participating in City of Los Angeles' PACE planning meetings.

At the State level, the CEC is exploring the development of a Financing Mosaic (Mosaic) that would be available for all counties. In concept, Mosaic is a clearinghouse of financing options and a one-stop shop for consumers seeking to finance energy efficiency and renewable energy home improvements. It offers consumers who wish to finance energy upgrade projects the opportunity to apply, pre-qualify and view a side-by-side comparison of products and rates, enabling prospective borrowers to make an informed decision when selecting a financing solution for their projects.

IOU Coordination Efforts

Another important effort underway includes collaboration with the CEC and local investor-owned utilities (IOUs) to launch and implement LACEP in coordination with the IOUs' Whole House Retrofit Program mandated by the CPUC. The goal of this collaboration is to present the public with one seamless program to minimize confusion and maximize participation. All agencies are in agreement that residents performing the required energy efficiency retrofits should be able to take advantage of the IOUs' substantial rebates (up to \$3,500), as well as PACE financing, when available, without having to apply to the various programs separately. In the absence of PACE financing, the IOUs' rebates are critical to LACEP's launch to maximize participation through monetary incentives. Consequently, LACEP's launch date is altered to coincide with that of the IOUs' Whole House Retrofit Program. Contractor training begins, rebates are available, and projects can commence in October, 2010. Mass advertising, marketing and outreach campaigns begin in January, 2011.

LACEP and the IOUs are collaborating on a common web-based application to collect data, streamline applications, and create a user-friendly experience. Contractor credentials and quality assurance protocols are similar for both programs in order to produce a larger, more

efficient workforce. The IOUs and LACEP have partnered to create one workforce training curriculum to eliminate confusion amongst participating contractors. A Marketing and Communications Plan shared by both the IOUs and LACEP splits responsibilities in order to leverage financial resources and market to a larger audience.

Stakeholder Outreach

ISD contacted cities and Councils of Government to provide them with a template resolution and other materials to encourage them to join the County program. As of August 1, 2010, sixty-eight cities adopted a resolution to opt-in to LACEP. Seven additional cities calendared the LACEP opt-in resolution for consideration by their Councils. To aid these outreach efforts prior to LACEP's launch, LACEP's internet splash page (www.lacountyenergyprogram.org) compiles up-to-date stakeholder information including PACE developments, outreach efforts, marketing material downloads, and a matrix indicating cities that have opted into LACEP.

In addition, each of the Board offices has reviewed the Marketing and Outreach Plan draft. The final Marketing and Outreach Plan, incorporating Board office comments, is expected by the end of August, 2010.

The CEC and CPUC are using a top-down approach to ensure that the IOUs and all local government recipients of State Energy Program funds collaborate and share data without fear of regulatory noncompliance. Both agencies agreed to endorse a common brand in State-wide marketing and to host a State-wide web portal to deliver participants web-based local program information.

Contractor Outreach

On May 25, 2010, your Board instructed ISD to initiate a meeting with interested local contractors and report back on how LACEP can address their policy concerns. On June 15, 2010, staff from ISD-COS met with representatives from the home performance, solar, and general building industries to discuss LACEP. During the discussion, the contractors' concerns focused on three topics:

- Financing requirements and payment process;
- Contractor qualifications and participation in the program; and
- Workforce development to meet program demand.

The concerns related to PACE financing requirements included the restrictive nature of the underwriting criteria, the need for the interest rate to be competitive and the benefit of multiple disbursements to relieve the financial burden on contractors. As discussed in this report, PACE financing for residential projects has been put on hold, but these concerns will be addressed as staff works to identify alternate financing options.

Related to contractor participation, these stakeholders seek assurance that all participating contractors be required to maintain a minimum level of qualifications and, if performing specialty work, required to obtain additional certifications. This is consistent with LACEP requirements. There was also discussion about the need to have a comprehensive quality assurance and control mechanism in place to provide consumer protection and to ensure that contractors are properly installing efficiency measures. LACEP includes quality assurance procedures to periodically review projects performed by participating contractors ensuring that projects meet high standards of quality and achieve the efficiency goals outlined by the Program.

The industry representatives were concerned about the availability of qualified contractors in the region. Staff has completed an initial workforce gap analysis of the region identifying and quantifying the workforce needs. A workforce development plan is currently in progress and includes strategies to reduce this gap and grow the local green workforce. As part of the vetting process for the plan, a Workforce Advisory Committee (consisting of representatives from the local Workforce Investment Boards, Community Colleges, green workforce training organizations, industry organizations, interested business-owners and other key stakeholders) will be convened to review and provide comment on the strategies and tasks included in the plan.

Program Design, Implementation and Administration Consultant

ISD-COS continues to work with the LACEP consultant team to finalize design, implementation, and administration details, as well as develop processes for administering individual financing, automating Program steps and tracking all required information. ISD is also working with the DOE and CEC to revise existing contracts with the LACEP consultant team to incorporate the additional tasks that will be implemented with the additional grant funding.

Financial and Legal Activities

TTC, bond counsel, and County Counsel have indefinitely postponed the judicial validation process that was scheduled to begin in July, pending a resolution of the current issues related to PACE. All documents needed to file for judicial validation are complete. When PACE financing resumes, the judicial proceeding will be ready to begin.

TTC is actively working with the City of Los Angeles' non-residential PACE committee. This effort is at an early development stage.

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If you have any questions, or require further information on this matter, please contact me, or your staff may contact Ellen Sandt, Deputy Chief Executive Officer at (213) 974-1186 or esandt@ceo.lacounty.gov.

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September 24, 2010

To: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
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From: William T Fujioka
Chief Executive Officer

AB 811 AND PACE FINANCING STATUS REPORT- SEPTEMBER 2010

On July 13, 2010, your Board directed the Chief Executive Office (CEO), Treasurer and Tax Collector (TTC), and the Internal Services Department (ISD) to report back on the status of the Federal Housing Finance Agency's opposition to Property Assessed Clean Energy (PACE) financing, which would be offered in California under Assembly Bill (AB) 811. As part of this motion, your Board directed County staff to halt the use of grant funds for the County's PACE program, to explore other financing options, and to work to resolve the PACE opposition. This Office provided your Board with detailed status reports on July 22, 2010, and August 19, 2010.

This memorandum describes the *Energy Upgrade California, Los Angeles County* program, as planned for implementation without a PACE option during October, 2010. In addition, ISD will brief your Board's planning deputies regarding *Energy Upgrade California, Los Angeles County* program details at their October 14, 2010, meeting. This memo also provides a status of efforts to resolve the impasse over PACE financing.

Status of the County's AB 811 Program

As previously reported, ISD halted grant spending related to the implementation of the countywide PACE Program. ISD continues to work with statewide partners to identify alternative financing for energy efficiency and renewable energy measures, and work with the County's Washington, D.C., office and national PACE stakeholders to support legislation resolving the Federal Housing Finance Agency's issues with PACE.

"To Enrich Lives Through Effective And Caring Service"

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PACE financing has always been only one tool in the scope of the countywide program to promote energy efficiency and renewable energy, albeit a significant one given the attractive features that PACE provides (i.e., financing attached to the property via a lien and repaid through property tax assessments, ability to cover operating expenses in the interest rate spread, and substantial state subsidies to help drive initial participation).

Most County grant funds have always been targeted towards creating demand for building retrofits, renewable energy projects, and in helping to establish workforce development programs that could meet the potential demand for projects. A summary of County grant funds and budgeted expenditures is provided as Attachment I.

Only a small amount of County grant funds was directly budgeted to establish PACE, which included PACE program design, and development of PACE legal documents (approximately \$500,000). The County's PACE program design and legal documents have been largely completed. The only remaining expenditures related to PACE will be used to complete the court proceeding to validate the program. This judicial validation has been put on hold.

Introduction of *Energy Upgrade California, Los Angeles County*

As part of a statewide branding effort, ISD has successfully integrated the Los Angeles County Energy Program into the statewide program, which here will be branded as *Energy Upgrade California, Los Angeles County*.

Energy Upgrade California is an unprecedented partnership of the California Energy Commission (CEC), the California Public Utilities Commission (CPUC), investor-owned and municipal utilities, local governments, and other stakeholders to promote a uniform, statewide energy efficiency program. The Program was developed utilizing over \$200 million in statewide funding dedicated to energy efficiency retrofits in residential and commercial properties roughly broken down as follows:

- \$120 million in CPUC funding administered by Investor Owned Utilities (IOUs);
- \$35 million in CEC funding to cities and counties for energy efficiency retrofits;
- \$35 million in Los Angeles County grants from the CEC and the Federal Department of Energy (DOE) specifically to implement a regional energy efficiency retrofit program; and
- Tens of millions of dollars in additional Energy Efficiency Conservation Block Grants, DOE, and CEC grants programmed by counties, cities, municipal utilities and workforce agencies throughout California including the City of Los Angeles and other Los Angeles County cities and agencies.

Energy Upgrade California, Los Angeles County will be the initial pilot program in Los Angeles County, and will provide County homeowners with a single, uniform home retrofit program to include: State rebates, County rebates, potential Federal rebates, third-party incentives, workforce development programs, on-line application tools, statewide and region-wide branding and marketing, local outreach activities, and alternative (in lieu of PACE) financing. *Energy Upgrade California, Los Angeles County* will be the model for implementing the Program throughout the rest of the State.

A description of the value and benefits that *Energy Upgrade California, Los Angeles County* will provide to homeowners in the County is provided in Attachment II.

The initial rollout of *Energy Upgrade California, Los Angeles County* will begin in October, 2010 and will primarily provide program orientation, technical details and training opportunities to contractors and workforce development agencies. Intensive marketing and outreach to homeowners and other stakeholders will begin in January, 2011.

Because *Energy Upgrade California, Los Angeles County* includes significant regional collaboration and leverages a variety of resources, it will enhance the County's ability to meet the goals of state and federal grants:

- Creation of more than 3,000 local jobs,
- Achieve 30,000 energy efficiency retrofits by 2013,
- Save \$20 million per year in energy costs for participating homeowners, and
- Reduce greenhouse emissions by over 35,000 metric tons of CO₂.

In addition, *Energy Upgrade California, Los Angeles County* will help the IOUs to meet their Whole House Retrofit Program goals and invite long-term funding for the Program for 2013 and beyond.

Lastly, *Energy Upgrade California, Los Angeles County* positions the County as the statewide leader in the implementation of regional, local government energy programs, and greatly improves the prospect of receiving future funding for County energy efficiency initiatives from state and federal sources.

Current Status of PACE and Alternative Financing

There are no current updates regarding PACE, or the availability of alternative financing in place of PACE, beyond those described in the August 19, 2010, status report. Further, this Office's latest report on Federal legislative activities and County priorities

indicated that there is unlikely to be any legislative solution for PACE before Congress recesses before the November elections:

"The County has been working closely with other supporters of PACE programs, including the National Association of Counties, the National League of Cities, and the United States Conference of Mayors to pursue legislative or administrative remedies which would preserve the viability of PACE programs. As indicated in its recent letter to Representative Ed Perlmutter (D-CO), the FHFA is retaining its guidance which imposed restrictions on the issuance of mortgage loans to properties with PACE assessments that are senior to mortgage loans. In addition, Fannie MAE and Freddie Mac also recently announced that they would not purchase mortgages for properties subject to PACE financing which was acquired on or after July 6, 2010. To date, there has not been any Congressional action on legislation (S. 3642 and H.R. 5766), introduced by Senator Boxer and Representative Thompson (D-CA), which would preserve the use of continued viability of PACE loans secured by first liens. It is highly unlikely Congress will act on the legislation before it recesses in October for the mid-term elections."

Our July 22, 2010, status report identified alternative financing programs that are either currently available or under development. The July status report also identified legislative activities underway at both the state and federal level to resolve the FHFA issues with PACE. Since then, there have been no major updates to the alternative financing programs or PACE issues.

Future Updates on AB 811, PACE, LACEP and Energy Upgrade California

The October, 2010 introduction of *Energy Upgrade California, Los Angeles County* will leverage significant resources throughout the State and region. Ultimately, when the PACE issues have been resolved, *Energy Upgrade California, Los Angeles County* will be able to incorporate both PACE outreach and the administration of PACE liens into the Program.

Because no short term resolution of the PACE situation appears to be at hand, we will suspend further formal written status updates on AB 811, PACE and alternative financing, etc., unless we hear otherwise from your Board. Instead, ISD will provide updates on significant activities on these issues on the County's website: www.lacountyenergyprogram.org. This website also provides pre-rollout information on *Energy Upgrade California, Los Angeles County* and updates on PACE-related issues. ISD will continue to prepare the Energy & Environmental Update Report, which is produced every six months (each February and August).

Each Supervisor
September 24, 2010
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If you have any questions, or require further information on this matter, please contact me, or your staff may contact Ellen Sandt, Deputy Chief Executive Officer at (213) 974-1186, or via e-mail at esandt@ceo.lacounty.gov.

WTF:BC:EFS

TT:JJ:HC:ef

Attachments

- c: Executive Office, Board of Supervisors
- County Counsel
- Internal Services
- Public Works
- Treasurer and Tax Collector

ATTACHMENT I

Grant Funding Breakdown

| Budget Category | EECBG | CEC | BBP | TOTAL |
|--|--------------|-------------|--------------|--------------|
| Program Design, Management, Grant Administration | \$2,415,666 | \$957,808 | \$1,783,171 | \$5,156,645 |
| IT Infrastructure for Administration of Individual Project Results, Incentives, Loans (includes statewide under BBP) | \$400,000 | \$170,000 | \$1,000,000 | \$1,570,000 |
| Support for Workforce Development/Training Agency Programs | 299,135 | 644,775 | 108,000 | 1,051,910 |
| Contractor Orientation, Recruitment, Training | 259,041 | 304,732 | 3,320,000 | 3,883,773 |
| Direct Financial Incentives: Homeowner, Contractor, Community Based Organizations (includes statewide for BBP) | 5,000,000 | 520,000 | 5,975,000 | 11,495,000 |
| Quality Assurance/Control Program | 346,822 | 337,094 | 450,000 | 1,133,916 |
| Verification of Energy Savings and Program Evaluation by 3rd Party (includes statewide for BBP) | 331,407 | 339,682 | 1,150,000 | 1,821,089 |
| Program Marketing and Outreach | 3,147,929 | 4,725,909 | 1,108,000 | 8,981,838 |
| | \$12,200,000 | \$8,000,000 | \$14,894,171 | \$35,094,171 |

EECBG: Energy Efficiency Conservation Block Formula Grant Funding - Dept of Energy
 CEC: Energy Efficiency Conservation Block Grant Funding - California Energy Commission
 BBP: Better Buildings Program - Department of Energy
 Funding

Your homework— Save Money, Get Rebates!

Energy Upgrade California is a new one-stop-shop for homeowners to find rebates, incentives and innovative financing options for making energy- and water-saving home improvements.

You can use less electricity, gas and water in your home, pay less on your monthly bills, and receive up to \$3,500 in rebates.

Energy Upgrade California™

is a triple win for homeowners:

- 1 Rebates for energy efficiency improvements
- 2 Lower utility bills
- 3 A more comfortable and livable home

www.EnergyUpgradeC.com

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RAFFLE

Energy Upgrade California is a partnership of the California Energy Commission and the California Public Utilities Commission.

Energy Upgrade California in Los Angeles County is an alliance among Los Angeles County, Southern California Edison and Southern California Gas Company. This program is funded in part by California utility customers and administered by Southern California Edison and Southern California Gas companies under the auspices of the California Public Utilities Commission.

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High Utility bills?

Time for some homework.



Improve your home. Get rebates. Save money.

Get a professional “Whole House” Solution

Many homes leak hot air in the winter and trap heat in the summer, making us crank up the heat or air conditioning to be comfortable. It's like watching hard-earned cash fly out the doors, windows and ceilings of inefficient houses.

For example, if your house is hot and stuffy and you think you need a new air conditioner, you can seal and insulate your house first to keep the heat out. Think of your house as a complete system working together—a “whole house”—rather than individual elements. You'll save on air conditioning bills and may even need a smaller new unit than you had before.

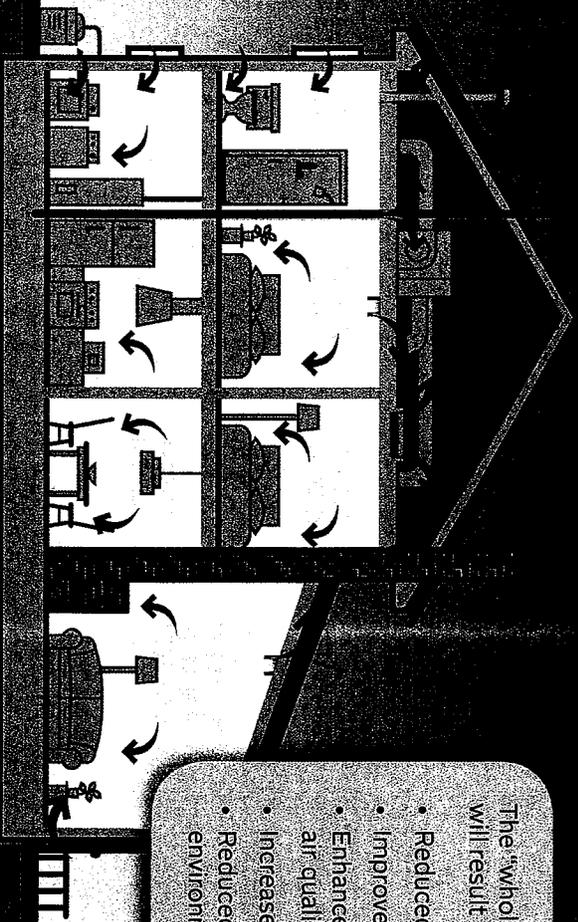
After sealing and insulating your house, your Energy Upgrade California contractor can identify ways to save more energy and get more rebates for:

- Energy-efficient heating and air conditioning
- Energy-efficient windows
- Cool roof
- Solar or tankless water heater
- Solar pool heater
- Energy-efficient light and controls
- Other energy-efficiency improvements that are permanent or “fixed” to your house.

The “whole house” approach will result in:

- Reduced utility bills
- Improved building comfort
- Enhanced indoor air quality
- Increased house value
- Reduced impact on the environment

Your Homes Hidden Leaks



Why Now?

Rebates Now Available

Your rebate depends on how much energy your improvements save. You can receive:

- \$1,000 for basic sealing and insulating (saving 10% energy usage)
- Up to \$3,500 for more extensive upgrades
- Additional rebates available for specific upgrades—ask an Energy Upgrade California contractor
- If you live in the cities of Los Angeles, Burbank, Pasadena, Glendale or Long Beach, your rebate may differ.

Unique Financing Options

Energy Upgrade California can help you take advantage of affordable financing options to offset your upfront costs. You'll find more details on the website.

Certified Contractors

Licensed and certified Energy Upgrade California contractors are experts in energy efficiency. A participating contractor can help ensure that you get the most out of your home energy efficiency upgrades and receive all the rebates and incentives you're eligible for.

Green Rated Home

Energy Upgrade California is your first step on the path to a GreenPoint Rated home. You'll have a healthier home and help the environment—while adding real value to your property.

www.EnergyUpgradeCA.org

